

PUBLIC DISCLOSURE

(July 22, 1996)

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**AMBASSADOR BANK OF THE COMMONWEALTH
DSBB - 034200700000
ALLENTOWN, PENNSYLVANIA**

**FEDERAL RESERVE BANK OF PHILADELPHIA
PHILADELPHIA, PENNSYLVANIA**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Reserve Bank of Philadelphia concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment ACT (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the financial institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Ambassador Bank of the Commonwealth** prepared by the **Federal Reserve Bank of Philadelphia**, as of **July 22, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated **OUTSTANDING**.

The rating is primarily based upon: (1) the institution's satisfactory level of loans in relation to deposits, (2) the majority of institution's loans that are located within its assessment area, (3) the geographic distribution of loans which reflected a reasonable distribution throughout the institution's assessment area, and (4) the distribution of loans that reflected an excellent distribution of credit among borrowers of different income levels and businesses of different sizes .

The rating was also based upon the bank's performance in making qualified investments, providing branch banking offices and related services, and providing delivery systems that enhance credit availability in its assessment area.

DISCUSSION OF INSTITUTIONS PERFORMANCE

The following table indicates the performance level of **AMBASSADOR BANK OF THE COMMONWEALTH** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>AMBASSADOR BANK OF THE COMMONWEALTH</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and Business of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the previous examination		

DESCRIPTION OF INSTITUTION

Ambassador Bank of the Commonwealth opened for business on October 15, 1990. The bank's headquarters is located at 4127 Tilghman Street, in the west end of the city of Allentown. At this location the bank also maintains its main office. The bank currently operates five, full-service branch office locations including its headquarters:

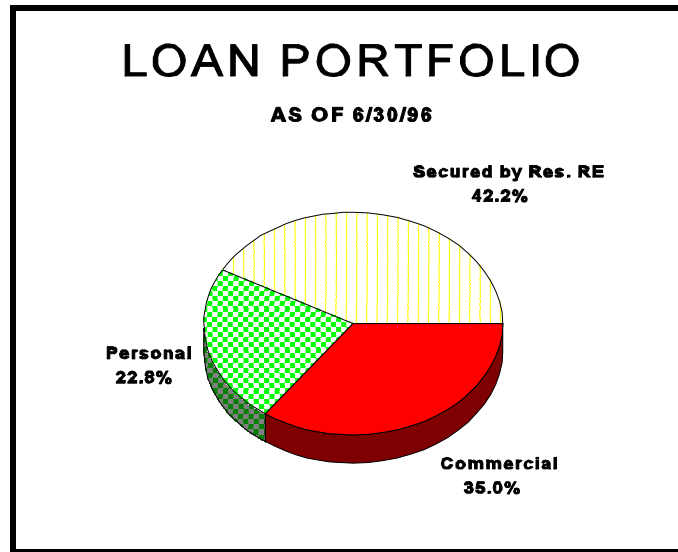
4127 Tilghman Street, Allentown
1995 Brookside Road, Lower Macungie Township
3397 Bath Pike, Bethlehem
535 N. 19th Street, Allentown
402 State Road, Emmaus

The customer-base of the bank consists of small- to medium-sized businesses and professionals that are primarily located in and near the counties of Lehigh and Northampton, collectively known as the "Lehigh Valley". According to management, the bank's goal is to become firmly established as the primary community banking alternative in the Lehigh Valley. In doing so, the bank continues to emphasize the advantages of its small size and community focus in relation to its ability to provide individualized customer service and flexibility to the individual and business needs of its community.

Ambassador Bank of the Commonwealth offers a variety of conventional loan and deposit products. The Uniform Consolidated Statement of Condition and Income as of 6/30/96 revealed total assets of \$186,655,000, of which \$115,774,000 or 62% were loans. An analysis of the loan portfolio composition revealed that loans secured by residential real estate were \$48,825,000 or 42.2%, and personal loans \$26,435,000 or 22.8%, which collectively accounted for 65% of total loans. The balance of the portfolio was essentially comprised of commercial loans. However, it should be noted that not all of the loans classified as secured by residential real estate are consumer purpose loans.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF INSTITUTION (continued)



Ambassador Bank is increasing in asset-size, office locations and services. Assets increased by 35.35% between 1994 and 1995 due primarily to a 28.32% growth in loans. A review of the bank's loan portfolio continues to reflect the bank's community orientation and its responsiveness in meeting the credit needs of its assessment area.

In an effort to increase its response to identified community credit needs, the bank developed and introduced a credit card product. The bank's credit cards are competitively priced and, since the credit cards are issued and serviced by the bank, its customers are afforded availability to the credit card issuer to resolve problems or to apply for increased credit limits. The bank also offers "affinity cards" in conjunction with a local, public television station (WLTV) and the city of Allentown. A portion of the revenues generated by the credit cards, supports public television and also funds special community-oriented projects in Allentown. As of 12/31/95 the bank had approximately \$1.2 million in credit card loans outstanding.

Since the previous examination, the bank significantly increased its indirect consumer loan volume in an effort to achieve certain business objectives and improve the overall profitability of the institution. Management has established a number of loan referral relationships throughout its local market. The indirect loan portfolio currently consists primarily of automobile loans. As of 12/31/95, there were approximately \$16.8 million of indirect automobile loans outstanding.

In April 1994, the bank established the Ambassador Bank Entrepreneurial Loan Fund Program. The program was created to provide an alternative funding source for creditworthy small businesses that may not qualify for traditional bank or government sponsored loan programs. The bank allocated \$2 million dollars to fund to this program. To be eligible for the program, a business must be located in the bank's assessment area, have annual gross revenues of less than \$2 million, and have 25 or fewer employees. As of 4/30/96, the bank had originated 33 loans under this program totaling \$1,530,091.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF INSTITUTION (continued)

In May 1994, the bank established the Ambassador Mortgage House (AMH), a mortgage brokerage division of the bank. The division accepts and processes residential mortgage applications and sells the loans to the secondary market. This arrangement enables the bank to offer loan products that have terms and conditions that are inconsistent with its asset/liability strategy. Additionally, this process permits the bank to offer a wide array of competitively priced residential mortgage products, including loan programs that are specifically developed to address the credit needs of first-time or low-to moderate income applicants. As of August 1996, sixty-seven mortgage loans were extended through AMH. The bank also originates residential mortgage loans on an accommodation basis. These loans are generally made on terms and conditions not consistent with those made available through its mortgage brokerage division.

The bank utilized its effective lending territory, in conjunction with existing geographic and natural boundaries, as the basis for determining its assessment area.

The assessment area is defined as encompassing all of Lehigh and Northampton counties. The assessment area is located in the Allentown-Bethlehem-Easton Metropolitan Statistical Area (MSA). The assessment area includes two of the three counties that comprise the MSA. The assessment area includes 131 census tracts, of which 21 or 16% are designated as low- to moderate-income by the Department of Housing and Urban Development (HUD), based upon 1995 agency estimates.

	Number	Percent
Low / Mod Income Census Tracts	21	16%
Middle Income Census Tracts	86	66%
Upper Income Census Tracts	24	18%
TOTAL	131	100%

The assessment area population consists of:

	Number	Percent
Low/Mod Income Census Tract Population	66,055	12.3%
Middle Income Census Tract Population	355,953	66.1%
Upper Income Census Tract Population	116,227	21.6%
Market Population	538,235	100%

(L/M designates low- to moderate-income)

The assessment area is primarily comprised of cities of Allentown, Bethlehem, and Easton and their surrounding suburbs. Therefore the bank's local market economy is significantly dependent upon the economic viability of these cities. Although the assessment area has a modest low- to moderate income population, all of the low- to moderate income census tracts are located within the three major cities.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF AMBASSADOR BANK OF THE COMMONWEALTH'S ASSESSMENT AREA

The following chart compares the demographic characteristics, based upon 1990 Census Bureau statistics, of the three major cities in the assessment area to the overall assessment area.

Demographic Comparison				
	Assessment Area	Allentown	Bethlehem	Easton
Median Family Income	\$38,627	\$31,972	\$35,011	\$26,365
Percent Minority Population	8.30%	13.80%	12.40%	14.00%
Median Housing Unit Value	\$100,101	\$76,600	\$90,600	\$80,500
Percentage of Owner Occupied Housing Units	68%	56.6%	61.0%	52%

In each of the cities, the median family income, the median housing values and the percentage of owner occupied housing units is less than the overall assessment area.

Based upon Census Bureau statistics, between 1980 and 1990 the population within the assessment area increased by 8%. According to the Joint Planning Commission of the Lehigh-Northampton Counties, the population of Lehigh Valley is expected to increase an additional 7% between 1990 and 2000. The majority of the current and anticipated population growth is expected to be concentrated in the affluent suburbs within the assessment area.

According to information provided by the Department of Research and Statistics of the Federal Reserve Bank of Philadelphia, the unemployment rate for the MSA as of as of 3/31/96 was 5.80%, a decrease from the rate of 6.34% for the same period of the previous year. The principal sector of the local economy has traditionally been manufacturing, however; the service sector has grown significantly over the last decade. The major employers in the region are Air Products and Chemicals Incorporated, AT&T Technologies/Bell Labs, Bethlehem Steel Corporation, Mack Trucks Incorporated, Victaulic, and Binney and Smith.

Ambassador Bank of the Commonwealth operates in a competitive market for financial services. The Allentown/Bethlehem/Easton MSA is serviced by 36 banks and thrift institutions with a total 228 branch offices. The aggregate deposits of these institutions total \$7.37 billion. Area competition has continued to intensify due to the recent trend of acquisitions of smaller financial institutions by the larger, regional financial institutions.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN TO DEPOSIT RATIO

A review of the bank's lending profile revealed that management continues to exhibit a responsiveness in meeting the credit needs of its service area. According to the December 31, 1995 Uniform Bank Performance Report (UBPR), the loan-to-deposit ratio as of 12/31/95 equaled 68.20%- peer, 65.58%, while at 12/31/94 and 12/31/93 it equaled 74.81% and 68.31% respectively. Peer data refers to all insured commercial banks having assets between \$100 million and \$300 million with three or more banking offices, and located in a metropolitan area.

The following chart depicts the loan-to-deposit ratio and the asset-growth rates over a four-year period:

	12/31/95	12/31/94	12/31/93	12/31/92
Loan to Deposit	68.20%	74.81%	68.31%	73.33%
Asset Growth	35.35%	30.87%	34.74%	58.15%
Net Loan Growth	28.32%	42.92%	30.36%	72.96%

As noted in the chart, an increase in asset-size has occurred in each year, and a consistent balance sheet composition of loans in relation to deposits has been maintained.

The following charts depict the institution's quarterly loan to deposit ratios since the last examination. The quarterly loan to deposit ratio average is derived by adding the quarterly loan-to-deposit ratios and dividing by the number of quarters since the last examination.

As Of	Net Loans	Deposits	Ratio
12/31/94	\$74,759,000	\$99,932,000	74.81%
03/31/95	\$78,706,000	\$120,630,000	65.25%
06/30/95	\$81,524,000	\$129,096,000	63.15%
09/30/95	\$85,914,000	\$134,517,000	63.87%
12/31/95	\$95,931,000	\$140,664,000	68.20%
03/31/96	\$103,735,000	\$150,754,000	68.81%
06/30/96	\$114,596,000	\$163,951,000	69.90%
Quarterly Loan to Deposit Ratio Average Since Previous Examination			67.71%

In summary, the loan-to-deposit ratio appears to be consistent with the asset-liability strategy of the management, and the ratio is comparable to the peer average of similarly-sized institutions.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING IN ASSESSMENT AREA

In an effort to determine its lending profile, procedures have been implemented to regularly monitor and analyze the geographic distribution of the credit originations of the bank. Accordingly, the geographic analysis conducted during this examination primarily consisted of an evaluation of bank documentation. The analysis also included a review of the bank's 1995 Home Mortgage Disclosure Act (HMDA) Disclosure Statement.

Management performed an analysis of the loan portfolio, exclusive of credit cards and indirect automobile loans, as of 12/31/95. The following lending profile, within and outside of the bank's assessment area, is as follows:

Loans Inside and Outside of Assessment Area Exclusive of Credit Cards and Indirect Consumer Loans				
	Number	Percent	Dollar	Percent
Inside	1,999	86.40%	\$66,440,324	82.10%
Outside	314	13.60%	\$14,475,861	17.90%
Total Loans	2,313	100.00%	\$80,916,185	100.00%

A review of the 1995 HMDA Disclosure Statement revealed the following information:

1995 HMDA Application Penetration Profile		
	Number	Percent
Inside	115	95%
Outside	6	5%
Total Applications	121	100%

1995 HMDA Loan Penetration Profile		
	Number	Percent
Inside	113	96%
Outside	5	4%
Total Loans	118	100%

Based upon the analysis, it was determined that a substantial majority of the bank's loans were extended within its assessment area. This determination was based primarily upon the bank's direct lending profile. Although the indirect and credit card loans were not evaluated as part of this review, it was determined that inclusion of these credit categories would enhance the bank's penetration profile within its assessment area for the following reasons:

- (1) The bank's indirect dealership network is primarily contained within its assessment area
- (2) The bank's credit card solicitations are generally limited to communities within its assessment area.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING IN ASSESSMENT AREA (continued)

In summary, the overall lending profile of the bank within its assessment area has exceeded the standards for satisfactory performance. This determination is also based, in part, upon the current asset-size of the institution, its financial condition, its business objectives, and the identified credit needs within the local community.

LENDING TO BORROWERS OF DIFFERENT INCOMES

A low- or moderate-income designation refers to income which is less than 80% of the median family income of the Metropolitan Statistical Area(MSA). The median family income for the Allentown-Bethlehem-Easton MSA is \$43,000, based upon 1995 HUD estimates therefore, families with an annual income of less than 80% of the median MSA income (\$34,400), are considered to be in the low- to moderate-income category.

A statistical sample of approved installment loans, for the six-month period prior to the examination, was reviewed to determine the distribution of borrowers of different income levels. Borrower incomes were categorized as follows:

<u>Low /Moderate Income</u>	Less than 80% of the Median MSA Income - Less than \$34,400
<u>Middle Income</u>	80% to 120% of the Median MSA Income - Between \$34,400 and \$51,600
<u>Upper Income</u>	Greater than 120% of the Median MSA Income - Greater than \$51,600

The review of the data during this period revealed that loans were extended to borrowers within the following income categories:

Borrower Income Distribution		
	Number	Pct.
Low/Moderate	34	32%
Middle	24	23%
Upper	43	40%
Unknown	5	5%
Total	106	100%

A review of real estate lending, based upon information contained in the 1995 HMDA Disclosure Statement, revealed the following information:

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES (continued)

1995 HMDA Income Distribution for Assessment Area				
	Applications Received		Loans Originated	
	Number	Percent	Number	Percent
Low/ Moderate Income	26	23%	25	22%
Middle Income	23	20%	23	20%
Upper Income	61	53%	61	54%
Not Available	5	4%	4	4%
Total Appl./Loans	115	100%	113	100%

Based upon the lending efforts of the bank, coupled with the demographic composition of the assessment area, the analysis revealed that the bank's distribution of loans reflects an excellent penetration among individual of different income levels, including low-to moderate-income borrowers.

LENDING TO BUSINESSES OF DIFFERENT SIZES

A small business loan for the purposes of CRA is a loan that is included in the category "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income.

According to Schedule RC-C Part II (Loans to Small Businesses and Small Farms) of the Consolidated Report of Condition and Income as of June 30, 1996, all of the commercial loans of the bank were classified as small business loans as shown in the following chart:

Loans to Small Businesses		
	Amount Outstanding at 6/30/96	Percent
Loans with original amounts of \$100,000 or Less	\$9,854,000	29%
Loans with original amounts of more than \$100,000 through \$250,000	\$12,099,000	35%
Loans with original amounts of more than \$250,000 through \$1,000,000	\$12,358,000	36%
TOTAL "SMALL BUSINESS LOANS"	\$34,311,000	100%
Loans with original amounts of Greater than \$1,000,000	\$0	0%
Total Commercial Loans	\$34,311,000	100%

To further assess the lending profile of the bank, a statistical sample of commercial loan approvals for the 30-day period prior to this examination was also reviewed to determine the distribution of loans to businesses of different sizes. A review of 20 commercial loans originated during this period, revealed that 19 or 95% were extended to businesses with gross annual revenues of \$1 million or less. The distribution of business loans was determined to be consistent with the institution's asset size and lending capacity.

DISCUSSION OF INSTITUTION'S PERFORMANCE CRITERIA (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS

The following charts depict the geographic distribution of the bank's loan portfolio, exclusive of credit cards and indirect automobile loans, as of 12/31/95.

Geographic Distribution of Loans Within Assessment Area Exclusive of Indirect Consumer Loans and Credit Cards				
	Number	Percent	Dollar	Percent
Low/Mod	165	8.25%	\$5,638,907	8.49%
Middle	974	48.73%	\$30,377,719	45.72%
Upper	860	43.02%	\$30,423,698	45.79%
Total	1,999	100.00%	\$66,440,324	100.00%

A review of the bank's 1995 HMDA Statement revealed the following geographic distribution:

Geographic Distribution of Applications Within Assessment Area		
	Number	Percent
Low/Mod	20	17%
Middle	40	35%
Upper	55	48%
Total	115	100%

Further analysis revealed that 19% of all HMDA applications were received from low- to moderate-income census tracts located inside and outside of the bank's assessment area.

Geographic Distribution of Loans Within Assessment Area		
	Number	Percent
Low/Mod	20	18%
Middle	39	34%
Upper	54	48%
Total	113	100%

The analysis also revealed that 19.5% of all HMDA originations were extended to finance properties located in low- to moderate-income census tracts that were inside and outside of the bank's assessment area. It should also be noted that all of the HMDA applications received from applicants residing in low- to moderate-income census tracts were approved.

The examination revealed that the bank had substantially penetrated most segments of its local community, including low-to moderate-income neighborhoods. At the previous examination, it was noted that five low-to moderate-income census tracts within the assessment area were void of any loan penetration. However, this examination revealed loan activity in 19 of the 21 low-to moderate income census tracts within the assessment area.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS (continued)

In summary, the analysis revealed that the geographic distribution of loans reflected a reasonable distribution throughout the institution's assessment area, including low- to moderate income neighborhoods.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

A review of the bank's credit policies revealed no evidence of prohibited discriminatory practices such as prescreening or the discouragement of applicants for the types of credit that are set forth in its CRA statement. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations, including: the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act and other agency regulations pertaining to nondiscriminatory treatment of credit applicants.

The institution solicits credit applications from all segments of its community, including low- and moderate-income neighborhoods. Management has established consumer and commercial loan policies that evidence its commitment to evaluate and offer credit requests without regard to any prohibited basis.

QUALIFIED INVESTMENTS

The management of Ambassador Bank has participated in meaningful community investment activities which have addressed identified credit needs within its assessment area. The following investments illustrate the active support of the institution in local community development initiatives:

The bank maintains an equity investment in the Allentown Development Corporation (ADCO), a community development corporation. As of 4/30/96, ADCO has provided loans totaling \$1,149,000 to businesses in the Lehigh Valley.

The bank has provided funds to support the New Neighborhood Credit Union, located in Allentown. The bank will also deposit funds in this entity. In Easton, the bank provided funds to the New Easton Area Credit Union. These credit unions were established to provide credit and banking services to low- to moderate-income neighborhoods.

On an annual basis, the bank has provided funds to the Home Ownership Council Program (HOCPP). This program assists the low- to moderate-income residents of the Lehigh Valley through the development and dissemination of information regarding the mortgage application and home purchase process.

The bank has financially supported the efforts of the Bethlehem Economic Development Corporation, a community development corporation.

BRANCH SERVICES AND OTHER DELIVERY SYSTEMS

The bank currently operates five, full-service branch office locations. The offices are accessible to the public by major roadways and public transportation. The 19th Street Office in Allentown, is proximate to a low- to moderate-income neighborhood. This office was purchased from a local bank in October 1994 and the bank acquired approximately \$7,000,000 in deposits as part of the purchase. As of 6/30/96, this office had deposits in excess of \$25,000,000.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

BRANCH SERVICES AND OTHER DELIVERY SYSTEMS (continued)

Management continuously reviews its business hours and the banking services that are provided to the communities that are serviced by the bank to ensure that the convenience and needs of its customer-base are addressed. Each of the offices have drive-in tellers facilities as well as automated teller machines in an effort to enhance the accessibility of bank products.

The bank has successfully expanded its loan and deposit base as a result of its aggressive record of branch openings. Through the expansion branch network, management has increased the ability of the institution to respond to the financial needs of its assessment area. Although the bank has not closed any branch offices, management has developed a comprehensive branch closing policy. The policy states that a community impact analysis will be undertaken prior to the closing of a branch.

The bank is an active participant in the housing programs sponsored by the Community Action Committee of the Lehigh Valley(CACLV). Through this affiliation, the bank has been able to enhance the availability of credit within its assessment area. The bank has participated in the following programs of the CACLV:

Home Ownership Council Program (HOCP). The program provides free information regarding each phase of the home-buying process for the low- to moderate-income residents of the Lehigh Valley. Participants are counseled on all aspects related to the mortgage process, including credit counseling; applying for an affordable mortgage; alternative financing options; understanding the mortgage settlement process; and understanding the financial obligations associated with home ownership. The Co-CRA Officer of the bank is the chairperson of this program.

Home Ownership Outreach Program (HOOP). The program is administered by the CACLV and Allentown Neighborhood Housing Services and is supported by the local government and financial institutions. The program allows first time home buyers, with limited incomes, to purchase a home with a minimal or no down payment and up to 100% financing. The participating banks provide 90% financing for first mortgage at a fixed rate, for a 30-year term with no points. The Allentown Neighborhood Housing Services (NHS) provides a second mortgage for the remaining 10%. As of April 1996, the bank funded two loans totaling \$55,650.

CRA Advisory Council. The council is comprised of representatives from the banking industry, local government, social service agencies, community organizations and local businesses. The primary objective of the council is to provide a forum to discuss and develop methods to address the credit needs of the community.

Outreach Committee of the Lehigh Valley. The committee has been established to determine the effective marketing strategies that will provide low- to moderate-income and minority individuals with information regarding the lending opportunities and programs that exist in the Lehigh Valley.

Task Force on Credit Issues. This committee produced a video entitled "Reflections on a Debt-Ridden Society" to educate consumers regarding the importance of maintaining a good credit rating. The video was broadcast on a local public television in the Lehigh Valley in February 1996.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

BRANCH SERVICES AND OTHER DELIVERY SYSTEMS (continued)

The bank offers competitively priced deposit products to its assessment area. The personal interest checking account has no minimum balance requirement and no maintenance or activity fees. This type of account provides low-income individuals an alternative to the local check cashing businesses that impose a check cashing fees.